Promise, Progress or Failure to Prioritise?

What we learned from the 2019 gender pay gap reports

pwc

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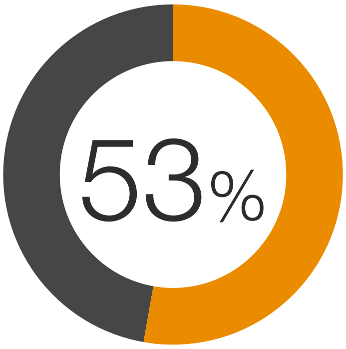
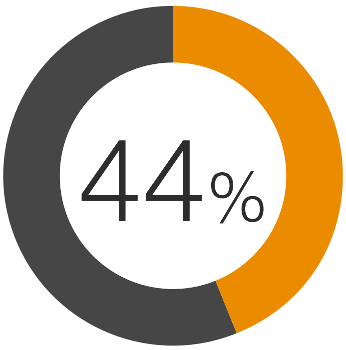
Slow progress isn't cause for alarm…yet

April 2019 saw the second annual deadline for companies employing at least 250 people across England, Scotland and Wales to disclose their UK gender pay gaps. Based on over 10,000 submissions, it's clear progress in closing the gap has been more muted than monumental.

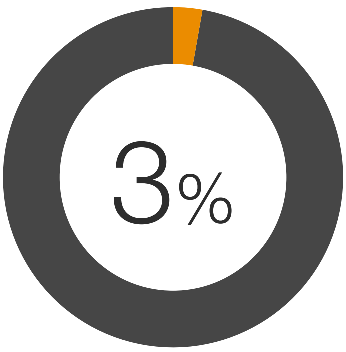
Of organisations reporting gender pay gap data in 2019…



posted a reduction



posted an increase



reported no change

> Understanding and tackling the gender pay gap is just one crucial part of the approach organisations should be taking to make the workplace fairer for everybody, regardless of gender, ethnicity, sexuality, background or beliefs. Recognise the issue and deal with it. It is not going to go away without planning and proper action. At PwC we are tackling this issue ourselves and working with clients to help them tackle it.

Laura Hinton
Chief People Officer, PwC

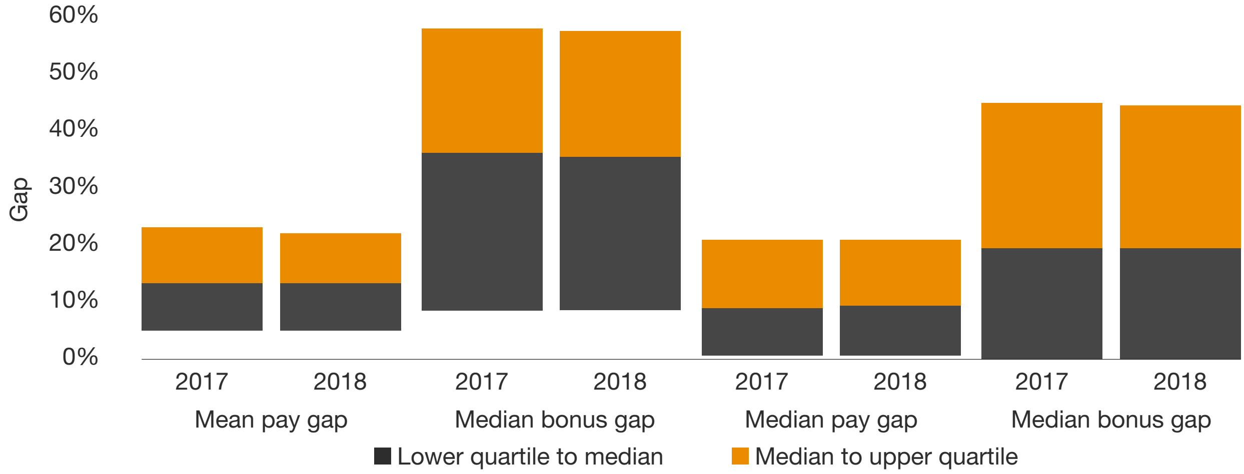
The data can be sliced and diced in different ways, but the median of all the mean pay gaps reported this year was 13.1%, as of the reporting deadline, marginally down from 13.3% last year. The median of all the median pay gaps inched higher, from 9.2% to 9.6%.

Though not encouraging, the incremental changes in pay gaps we've seen so far should at least create a greater sense of urgency. While some organisations were already taking steps to address their gender pay gap before the introduction of mandatory reporting, many are still at the very beginning of what will be a lengthy process.

There are good reasons why progress could appear slower than ideal, especially if measures being implemented focus on delivering long-term results. But this shouldn't provide an excuse for those who are still dragging their feet.

The time for action is now.

Spot the difference: Overall, the changes amount to a very minor shift. And while big jumps shouldn't necessarily be expected within the first few years, the apparent lack of movement will increase pressure and scrutiny.



Mean, Median and Equal Pay

Companies have to report their mean and median gender pay gaps and bonus pay gaps. It's important to be aware of what each measure tells us.

Mean: This considers all the data with equal weighting, including outliers.

Median: This only looks at the midpoint, and so effectively ignores outliers and anomalies.

To examine an individual organisation's pay gap, it's often more useful to reference the mean, because that figure will encompass all data. For the purpose of drawing conclusions about all reports, removing atypical figures may help create a more representative picture.

Equal Pay: A gender pay gap does not necessarily indicate women are being paid less than men for performing equal work, which would be illegal under the Equal Pay Act 1970. But it does underscore that women disproportionately occupy more lower paid roles than men.

Explanations but not excuses

One factor that may be obscuring some progress made over the past 12 months is the timing of the first two reports.

Gender pay gaps are based on a snapshot of data taken in the April of the year prior to the reporting deadline. A large proportion of businesses that published their pay gaps last year did so in the weeks leading up to the 5 April 2018 deadline, meaning they may not have been aware of the full extent of their gap until then. The 2019 reports are based on data from April 2018, at which point some companies may only just have started to react to what their first set of figures revealed.

While this may be understandable when the requirements were brand new and companies were getting to grips with them, this excuse is unlikely to age well.

Having now had at least one full year to put measures in place to improve any gender pay gaps, pressure will be on organisations to present evidence in April 2020 that demonstrates efforts they are making to effect change.

Little change doesn’t mean nothing’s happening

Though progress has been sluggish so far, the dialogue generated by gender pay gap legislation has raised awareness and encouraged organisations to incorporate diversity into their operational strategies. Knowing the extent of the problem is a necessary place to start.

It’s also important to remember some of the most effective strategies for implementing a sustainable approach to closing the gender pay gap may result in an apparent lack of progress at first – or even what may appear to be a short-term regression.

For example, some organisations seeking to achieve long-term, sustainable gender diversity may already be advanced in the process of hiring more female employees at junior levels, with a view to nurturing those individuals as they climb the ladder to more senior, higher paid roles. But hiring more relatively low paid women while there’s little change at the higher paid senior levels will make the mean gender pay gap wider in the short term. In the long run, however, if that female talent can be retained and developed, the gap will become narrower and the organisation better balanced at every level.

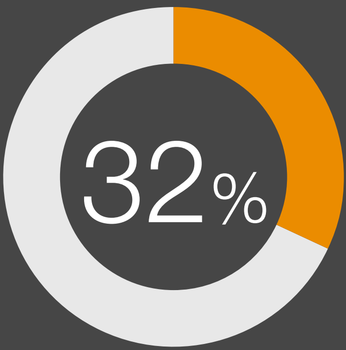
Other factors may also skew the appearance of progress within an organisation.
For example, mergers and acquisitions can appear to undo an organisation’s good work if its workforce is combined with that of a less progressive organisation.

> “Change needs to happen, but there are no credible quick fixes. Organisations need to review and amend their people policies and processes from recruitment, to retention, to returners and promotions. For that to yield results will take time.

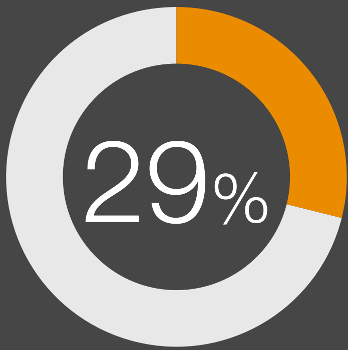
Katy Bennett
Diversity and Inclusion Consulting Director, PwC

A question of timing and accuracy

A lot of organisations left it late again this year to file their reports and a few hundred missed the deadline altogether.

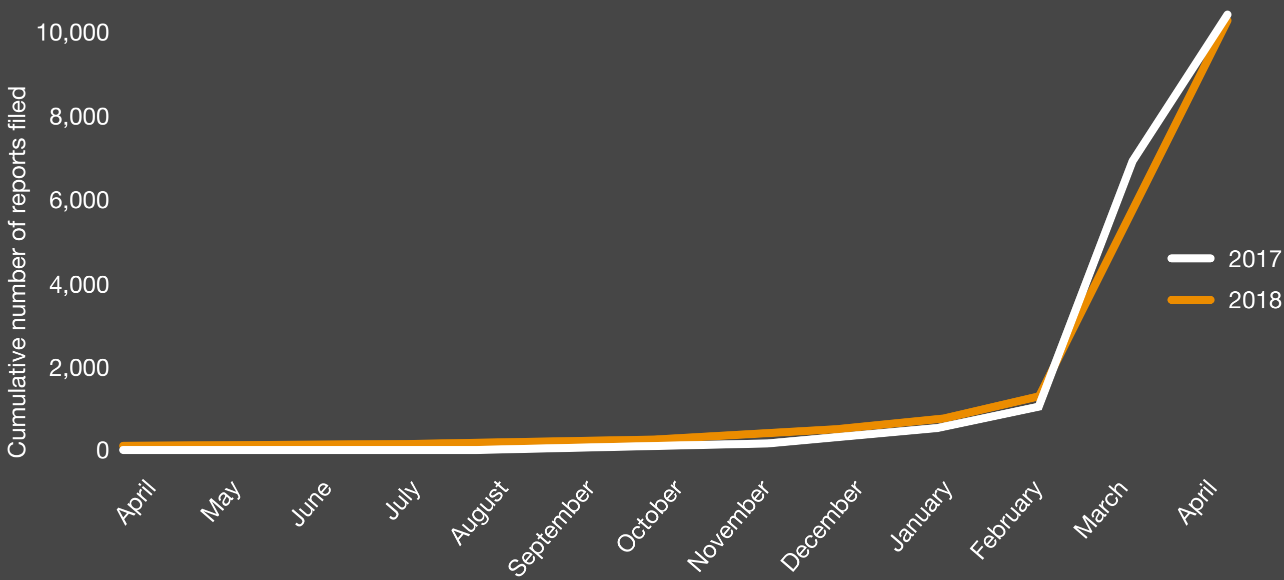


published their figures two days or less before the 2018 deadline.



published their figures two days or less before the 2019 deadline.

The late show: The majority of companies filing have left it late each year but is this an issue of planning, prioritisation or an attempt to get lost in the crowd?



Not publishing the data until the final weeks – or in some cases days – could create serious reputational risk if it is perceived to be a sign that a company doesn't consider gender pay gap reporting to be a priority. It may also indicate a desire to seek some cover from public scrutiny amid the crowd of other companies reporting just before the deadline.

There should also be a greater focus on the accuracy of reports. Figures published by around 5% of companies this year look implausible and likely inaccurate, but there's no comprehensive mechanism in place for verifying numbers.

Over 300 organisations restated their original figures last year, and others still appear incorrect. Some companies have reported a gender pay gap greater than 100%, which is statistically impossible, and others have published reports in which the individual pay quartiles don't align with the median.

The combination of delayed and late reporting, errors and corrections, and statistically implausible results across an albeit small group of employers, may suggest the implementation of regulation and the scrutiny of the data needs to be taken more seriously.

Year three numbers, due to be published no later than April 2020, should therefore be scrutinised extremely carefully. Little or no progress by then should raise legitimate concerns and prompt individual businesses, and perhaps policy makers, to consider what additional measures can be implemented to accelerate – or in some cases kickstart – progress.

> Workplace inequality is an issue that can significantly damage the reputation of an organisation, especially if it is perceived to be downplaying its importance. Late reporting, inaccurate reporting or failing to communicate clearly how an organisation is fixing a problem, could all prove damaging.

Jon Terry
UK Diversity & Inclusion Consulting Leader, PwC

Sectors under scrutiny

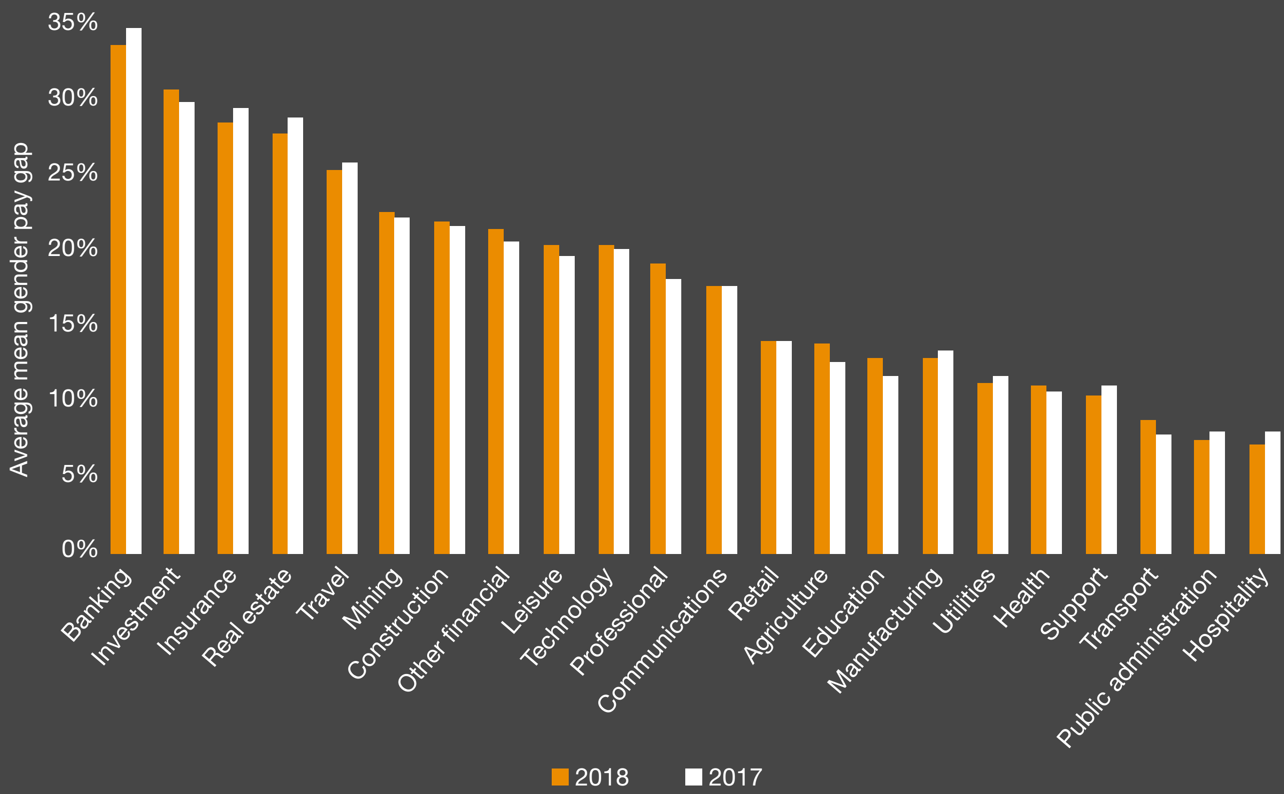
Of the five sectors with the greatest gender pay gaps – banking, investment management, insurance, real estate and travel – all but one, investment management, reported an improvement this year from last.

At the other end of the scale, of the five with the smallest gaps – health, support, transport, public administration and hospitality – three posted an improvement. This may indicate that a wider pay gap tends to place greater pressure on an organisation to ensure change. But there are caveats to this theory. In some cases the improvements may be too incremental to be indicative of a real trend. Some industries are also much smaller than others in terms of the numbers of businesses reporting, meaning a large move at a single company would have a greater impact on the mean figure for the whole industry.

> "To make progress towards closing the gender pay gap, it's imperative a business knows what motivates and inspires all its employees. Each sector faces its own challenges and some find themselves in the spotlight more than others. The early signs suggest those companies under greatest scrutiny are making some progress.

Luke Hatter
Reward & Employment Director, PwC

The scrutiny effect? Many of those industries with the greatest pay gaps in 2017, reported the greatest, albeit still modest, improvements.



Companies are responsible for assigning themselves to an industry, based on codes provided by the government. The manufacturing sector included over 1,400 reporting entities in 2018, while the real estate sector included just 20.

Overall, companies in the education, agriculture, transport and leisure sectors recorded the greatest increases in the mean gender pay gap, while organisations across real estate, insurance, hospitality and banking recorded the greatest decreases.

Trouble at the top?

Although recruiting more junior women can be an important part of the long-term solution, issues must be addressed at all levels of seniority.

This year's data echoes last year's in that it shows most organisations' top pay quartile is dominated by men. While female representation at the very top of an organisation is critical to influencing culture and providing role models for the rest of the workforce, it's also important not to underestimate the importance of creating gender balance across the whole of the top quartile. These individuals represent the pipeline of future leaders and have the ability to power sustainable change across all levels of an organisation. Many companies will need to attract and foster a whole generation of female managers to create true balance.

Of course employers need to be conscious of how they can better support both genders and promote greater workforce equality, for example through more positive attitudes towards flexible working and shared parental leave. But they need to be particularly cognisant of the challenge of helping women who are returning to the workforce after an extended period of leave.

Changes in pay quartiles:

The median female representation in the top quartile has increased marginally from

37.3% to 38%

and in the bottom quartile decreased marginally from

55.7% to 55.5%

However, in some cases it may be tempting to overemphasise the impact of a single factor.

Gender pay gaps are often created by a complex combination of factors, including promotion rates, allocation of performance ratings, access to the best opportunities to progress and recruitment pools. In some organisations a flexible working policy may, for example, be a key factor in driving significant change. But elsewhere changes to recruitment processes or talent identification may have a more pronounced effect.

It's critical to understand the nature and origin of the problem and to not jump to convenient conclusions or make generalisations for the sake of ease. Ultimately, the starting point should be an organisation's own data and experience, not the initiatives and approaches of others.

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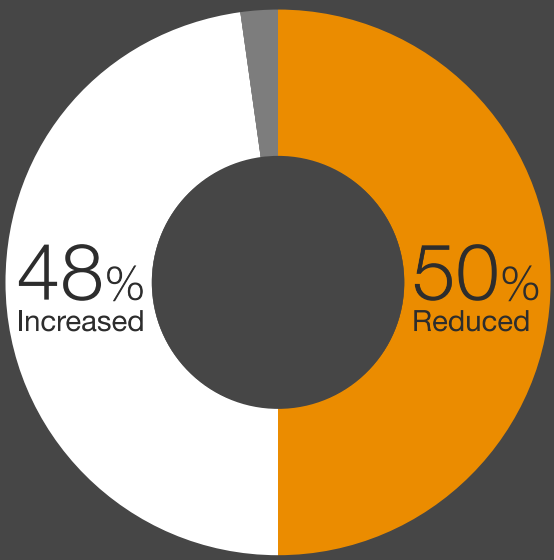
Supporting employees who have taken time out of work for whatever reason should be a priority for all businesses. But it shouldn't be treated as a universal solution to all diversity and inclusion problems. Organisations must implement an evidence-based approach to understand what the precise problems are and what measures are most likely to yield the best results. We then need to be flexible in adapting solutions based on individual circumstances.

Deepti Vohra
Director, Gender Balance Network Leader, PwC

Bonuses only tell part of the story

As of this year's reporting deadline, some 7,840 companies had published a bonus pay gap, which was marginally lower than the 7,898 that published one last year.

Bonuses in the balance: The vast majority of companies recorded a small increase or marginal decrease in the mean bonus pay gap. Only 2% recorded no change at all.



36% > 35.4%

Change in median of mean bonus pay gaps

19.6%

Median of median bonus pay gaps was unchanged

It's important to remember the discretionary nature of bonuses means they are 'reset' each year and therefore can't be relied on as an accurate gauge of trajectory.

It's also worth noting that bonuses typically account for a higher proportion of pay the higher the base salary is. So it's perhaps not surprising the bonus gender pay gap is greater than the gender pay gap. It's also to be expected that bonus pay gaps are larger when bonuses themselves are higher.

Because bonuses are frequently directly linked to the financial health of a company, any change in the bonus gender pay gap may therefore be as much a reflection of the company's performance as it is of the organisation's efforts to tackle the gender pay gap.

Don’t lose sight of why this all matters

Gender pay gap reporting was introduced to highlight a systemic problem within thousands of businesses across the UK. It aims to encourage organisations to understand and address gender pay disparities within their workforce. To do this effectively, it is crucial employers identify the key drivers of their gaps. In some cases this may be a fundamental lack of diversity and female representation, but in others it could be issues with pay processes, even leading to possible equal pay risks.

Reporting should therefore be regarded as just part of a process towards achieving a diverse workforce through greater transparency. It should also provide us with an opportunity to learn how we might be able to report on other diversity metrics in future, such as ethnicity, disability or social mobility. In January 2019, the UK government closed its consultation on ethnicity pay gap reporting.

Organisations that published a pay gap this year that was little changed from last year should not necessarily be chastised for their lack of progress. But they should be transparent and vocal about their action plans and specific goals.

Publishing a road map for progress, and even committing to measurable milestones, might be a way to enhance accountability and help focus efforts and action. It may also help distinguish those organisations whose long-term strategies are yet to show clear progress from those that have yet to do anything to address the problem.

Where do we go from here?

The apparent lack of progress will increase scrutiny over the coming years. The prospect of a tougher regime and the potential for more stringent mechanisms to ensure accuracy and compliance should encourage companies to get ahead of the curve and avoid sanctions.

Organisations must ensure they are doing everything within their power to combat the gender pay gap. This will not only help them retain and attract talent, but will protect their reputations while enhancing productivity and performance. Whatever approach businesses take it should be treated as a vital component of running a responsible, transparent business which is able and willing to admit and fix its problems.

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Gender pay gap reporting shouldn't be seen as an onerous compliance exercise, but a vital step towards engaging your people in creating an open, transparent and tolerant working environment. It is crucial to the success and reputation of an organisation. Greater gender balance at all levels will help an organisation attract and retain the best and brightest talent and build stronger ties to key communities, customers and business partners.

Nandini Das
Change Consultant, PwC

Get in touch

We have specialists across HR, legal, compliance and communications who are available to help. To discuss gender pay gap reporting, or related issues such as ethnicity pay gap reporting, please get in touch.

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